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INFO RUEHEE/ARAB LEAGUE COLLECTIVE
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RHEHAAA/NSC WASHDC
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UNCLAS SECTION 01 OF 02 BEIRUT 001630

SENSITIVE

SIPDIS

STATE FOR NEA/ELA, EEB/IFD/ODF, EEB/CIP/BA
STATE PASS USTR FRANCESCKI
STATE PASS USAID BEVER/LAUDATO/SCOTT
TREASURY FOR PARODI/BLEIWEISS/AHERN
USDOC FOR 4520/ITA/MAC/ONE
NSC FOR ABRAMS/RAMCHAND/YERGER/MCDERMOTT

E.O. 12958: N/A

TAGS: ECON EFIN PREL PGOV LE

SUBJECT: LEBANON: TELECOM PRIVATIZATION ON TRACK, BUT UNLIKELY
BEFORE THE ELECTIONS

REF: BEIRUT 1627

SUMMARY

¶1. (SBU) In recent weeks, Embassy contacts have publicly and privately expressed doubts that the privatization of mobile telecom licenses can take place before the spring 2009 parliamentary elections. Most contacts blame poor market conditions following the international financial crisis for the likely delay. Nonetheless, all government officials involved in preparing the privatization say there is political will to privatize, and that it will happen, most likely in the months following the elections. Despite talk of the GOL imposing foreign ownership restrictions on the licenses or imposing revenue-sharing schemes, post believes the privatization will go through when the market improves, and the USG should not push the Siniora government to privatize too soon if it would hurt the government politically. End summary.

NO PRIVATIZATION BEFORE THE ELECTIONS...

¶2. (SBU) Privately and publicly, an increasing number of GOL and foreign officials have been expressing doubts about the likelihood of mobile privatization taking place before the 2009 elections. On November 1, French daily L'Orient le Jour quoted SYG of the Higher Council for Privatization Ziad Hayek as saying that mobile privatization may be delayed. He attributed the delay to current market conditions, which would make it difficult for interested companies to get financing. However, Hayek commended the Minister of Telecommunications Gebran Bassil's efforts to improve the mobile network in the meantime.

¶3. (SBU) World Bank country Manager Demba Ba told us November 4 that he concurred with Hayek, saying that international market conditions are not likely to attract investors for mobile privatization. PM Senior Advisor Ghassan Taher shares Ba's views, and publicly said to donor country representatives at a Paris III donor meeting on October 23 that privatization could be difficult to achieve in 2009.

¶4. (SBU) Hayek told us on November 10 that the GOL may want to wait for better market conditions, noting that current conditions could lower the valuation of the two mobile licenses. Hayek said Bassil is nonetheless still building political support for mobile privatization, and will hold a workshop for stakeholders in early December.

...BUT PERHAPS RIGHT AFTER

15. (SBU) Telecom Regulatory Authority (TRA) Chairman Kamal Shehadi believes mobile privatization is possible in the first half of 2009 if the GOL can summon up political will. He refuted claims that current market conditions make it difficult for investors to get financing, and told us November 4 that eight out of the ten companies that have expressed interest in bidding for a mobile license are from countries that have so far been only minimally affected by the financial crisis and thus would be able to bid. Regarding SYG Hayek's remarks, Shehadi said "he spoke too soon."

16. (U) On November 8, Finance Minister Mohammad Chatah told English-language newspaper The Daily Star that although the legal and technical aspects of mobile privatization should be ready, privatization may not happen before the 2009 parliamentary elections. Chatah said Paris III donor countries were not pressing Lebanon "to privatize the mobile networks before the election, but they want to see some steps taken by the government that will pave the way for the privatization."

17. (SBU) In a November 11 meeting, Chatah told us there is support for telecom privatization across the political spectrum, and that it will go forward, though there may be restrictions on foreign ownership or other conditions set to ensure political consensus. Chatah said political and market conditions might affect the timing, but the sale still should go through either in the spring before the elections, or in the fall, soon after them. He noted that if the sale went through under the current conditions, the GOL could be accused of cheating the people out of a receiving a fair price for

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state assets.

COMMENT

18. (SBU) Post believes it is increasingly unlikely that mobile privatization will occur prior to the 2009 parliamentary elections. Though the USG has been anxious to see privatization sooner rather than later, to ensure disbursement of the final tranche of USG budgetary support funds pledged at Paris III, the main issue seems to be market conditions in the wake of the world financial crisis, and not a lack of political will. If the GOL thinks a few extra months' wait can significantly increase the bids it can receive for the licenses, perhaps it is prudent for it, and the USG, to wait. Ultimately, forcing through a privatization under poor market conditions could hurt the Siniora government and all those working for reform and democracy in Lebanon. End comment.

SISON